

# The Canadian Society of Cost Accountants & Industrial Engineers

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Issued by

The Canadian Society of Cost Accountants & Industrial Engineers,  
Headquarters, 81 Victoria St., Toronto, Canada,  
1930

## CHARTER

The Society was incorporated by letters patent of the Dominion of Canada on May 3, 1920, as The Canadian Society of Cost Accountants. The applicants for incorporation, who constituted the first or provisional directors, were: James Hutchison, Montreal; R. J. Dilworth, Toronto; F. C. Gilbert, Winnipeg; G. W. Dickson, Halifax; G. E. Winter, Vancouver; G. C. Rooke, Regina; J. B. Sutherland, Calgary, and R. A. MacIntyre, St. John.

On June 10, 1930, the name was enlarged to The Canadian Society of Cost Accountants & Industrial Engineers. The Society is subject to the Companies Act of Canada, and its operations are governed by by-laws passed at general meetings of the Society.

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## OBJECTS

The objects of the Society as set forth in its Charter are as follows:—

(a) To promote actively the study and application of the Science of cost accounting.

(b) To develop and foster in commerce and industry a wider adoption of scientific cost accounting methods as an aid to management and executive control.

(c) To provide an organization to facilitate the increase in knowledge and proficiency of its members, in all matters relating to cost accounting and allied branches of commercial and industrial management.

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## BY-LAWS

(Adopted March 28, 1929.)

### ARTICLE 1. MEMBERSHIP

(a) Any person of the full age of twenty-one years may be admitted to membership in the Society provided he is qualified in any of the following groups:

- (1) Members in good standing of any public body of accountants incorporated under the authority of the legislature of any Province of Canada, and any other persons who have been engaged professionally in the practice of accounting, cost accounting, or engineering, either on their own account or in the employ of others for a period of at least three years, or whose experience shall be accepted by the Board of Directors as equivalent thereto.
- (2) Persons who are employed as Accounting Officers of any organization or association, whose duties shall consist in whole or in part of supervision over or control of all or part of the cost accounting of such organization or association.
- (3) Executive Officers or Departmental Heads of any organization or association, who are directly interested in the development of the science of cost accounting.
- (4) Persons engaged in teaching or in educational work connected with accounting, cost accounting, commercial or industrial management, or engineering.

(b) Persons of age eighteen years or over may be admitted to limited membership in the Society as junior members, if they are employed in any clerical capacity by or under the supervision of a member of the Society and are so certified by such Member; provided that persons admitted as Junior Members shall cease to be such whenever, in the opinion of the Board of Directors, they have ceased to be so employed.

(c) All applications for membership or Junior Membership shall be in writing on forms provided for that purpose. Each applicant shall be proposed and seconded by two members of the Society, and each applicant for junior membership shall be certified as to character and eligibility by the member in whose employ he is.

(d) All applications shall be submitted to the Board of Directors, and the approval of a majority of the directors present and voting at any meeting of the Board shall be sufficient for election.

## ARTICLE 2. FEES

(a) The fee for membership in the Society shall be Twenty Dollars per year for members and Five Dollars per year for junior members.

(b) The fee for members shall be payable in advance on the first day of March in each year, or, at the option of the member, in two half yearly instalments of equal amounts payable respectively on the first day of March and first day of September in each year.

(c) Members who are elected during any fiscal year shall be required to pay fees only for the unexpired portion of the said year, dating from the day of election.

(d) The fee for Junior Members shall be payable in advance on the first day of March in each year, or, at the option of the member, in two half-yearly instalments of equal amounts payable respectively on the first day of March and the first day of September in each year.

(e) Any member or junior member who shall fail to make payment of his fee within two months after the date fixed for such payment shall be liable, after due notice and a failure to make payment within one month thereafter, to have his membership or junior membership terminated by the Board of Directors.

## ARTICLE 3. GOVERNMENT

(a) The affairs of the Society shall be managed by a Board of Directors, which shall consist of not less than fifteen and not more than thirty members of the Society who shall be elected by the members at the annual meeting of the Society, and of the chairman and vice-chairman of each chapter.

(b) For the transaction of business at any meeting of the Board of Directors five shall form a quorum.

## ARTICLE 4. OFFICERS

(a) The Board of Directors shall, at their first meeting after such election, elect from among themselves a President, two Vice-Presidents, an Honorary Secretary and an Honorary Treasurer, and may

also from time to time appoint such other officers as the business of the Society shall render expedient and determine their duties and remuneration.

(b) The President of the Society may designate any member of the Board to act as Director in charge of some special phase of the activities of the Society, and any Director so appointed shall make a periodical report to the President of his work in that connection.

#### ARTICLE 5. MEETINGS

(a) Notice of the time and place for holding a general meeting of the Society shall be given at least fourteen days previously to the time in such notice specified for such meeting, by mail, addressed to the last known address of each member in good standing. At all general meetings of the Society every member in good standing shall be entitled to one vote and such vote may be given in person or by proxy if such proxy is himself a member in good standing. All questions proposed for the consideration of the members at such meetings shall be determined by the majority of votes, and the Chairman at such meetings shall have the casting vote in case of an equality of votes.

(b) A special general meeting of the Society may be called at any time by the President or by a majority of the Board of Directors or upon the written request of at least twenty members in good standing.

(c) For the transaction of business at any general meeting of the Society twenty members present shall constitute a quorum.

#### ARTICLE 6. ANNUAL MEETING

(a) The fiscal year of the Society shall end on the last day of February in each year, and the annual meeting of the Society shall be held within two months thereafter at such time and place as the Board shall determine.

(b) A report on the work of the Society, together with a financial statement for the previous year, duly audited, shall be presented at each annual meeting.

(c) At the annual meeting in each year two Auditors shall be elected by the members of the Society from among their number, and the persons so elected shall certify as to the correctness of the next following financial statement.

#### ARTICLE 7. CHAPTERS

(a) The Board of Directors may authorize the formation of Local Chapters in such centres as they may deem advisable, may designate the territory to be allotted to such chapters, and may make such grants from the funds of the Society as they may deem expedient for the development and carrying on of Chapter work.

(b) Each Chapter shall be entitled to 20% of the fees collected by the Society from members within its territory, with a minimum of \$60 (Sixty Dollars) per year, payable semi-annually, as and when directed by the Board of Directors.

(c) The fiscal year of all Chapters shall end on the last day of February in each year. The annual meeting of each Chapter shall be held within one month thereafter.

(d) Each Chapter shall be governed by a Board of Directors, elected at its annual meeting, of not less than seven and not more than fifteen members. These directors shall elect from their own number a Chairman, a Vice-Chairman and a Secretary-Treasurer or a Secretary and a Treasurer. At any meeting of the directors of the Chapter five shall constitute a quorum.

(e) Each Chapter shall have the right to make such other regulations as may be found necessary to meet local conditions, subject always to the approval of the Board of Directors of the Society.

(f) Each Chapter shall, within one month after the close of its financial year, forward to the Society a copy of its financial statement for the year.

#### ARTICLE 8. CORPORATE SEAL

The Society shall have a Corporate Seal. An impression of the Corporate Seal, certified by either the President or a Vice-President and by either the Honorary Secretary or the Honorary Treasurer, shall be binding upon the Society, but the Officers so certifying shall be personally accountable to the Directors and the Society for the due and proper exercise of such authority.

#### ARTICLE 9. SIGNING OFFICERS

All cheques or other negotiable instruments not requiring the use of the Corporate Seal shall be signed by the President, or a Vice-President, or the Honorary Treasurer and by the General Secretary or other officer designated by the Directors.

#### ARTICLE 10. EXAMINATIONS

The Board of Directors shall have power to hold examinations and to issue certificates of efficiency to successful candidates.

#### ARTICLE 11. AMENDMENT OF BY-LAWS

The Directors may from time to time repeal, amend or re-enact by-laws of the Society, but every such by-law and every repeal, amendment or re-enactment thereof, unless in the meantime confirmed at a general meeting of the Society, duly called for that purpose, shall only have force until the next annual meeting of the Society, and in default of confirmation thereat shall, at and from that time, cease to have force; provided, however, that no such repeal, amendment or re-enactment thereof shall have any force or effect whatever until approved by the Secretary of State in accordance with sub-section 4 of Section 7A of the Companies Act.

#### ARTICLE 12

All former by-laws of the Society are hereby repealed.

## ORGANIZATION AND WORK

The Society has functioned continuously from the date of its incorporation, and its activity has steadily increased. In the early years meetings were only occasional, but with the development of Chapters in the leading cities regular programs were arranged. In 1924 the Society was affiliated with the National Association of Cost Accountants of the United States, and our members received the publications of the latter body. This connection was severed in 1926, but the two organizations continue in friendly co-operation. Since that date this Society has had its own monthly publication, "Cost and Management," which provides the members with a fund of educational material drawn from its meetings and from other sources, and also records the activities of the Society and its chapters. In 1927 headquarters were established in Toronto, from which the general business of the Society is conducted. In 1928 the Society inaugurated a plan for examinations and the issue of Certificates of Efficiency in Cost Accounting.

Toronto Chapter was formally organized in 1923, Montreal Chapter in 1924, Hamilton Chapter in 1925, Winnipeg Chapter in 1928, and Central Ontario Chapter in 1929. With the growth in the population and industries of the Dominion of Canada, and the increased attention to cost work, the formation of new Chapters in other cities should be warranted.

Annual conventions, attended by members of the Society as a whole, were held in September, 1926, at Toronto, and in September, 1927, in Montreal.

The Society's name was extended in June, 1930, to The Canadian Society of Cost Accountants & Industrial Engineers, to make the Society more definitely useful to industrial engineers and others engaged in controlling production. It was recognized that this field has much in common with cost accounting, and that the organization can serve both classes of members economically and effectively.

The services offered by the Society to its members may be summarized as follows:—

1. Chapter meetings—Held regularly in each chapter centre.
2. Cost and Management—Published monthly.
3. Employment Service—The Society has been the means of providing experienced men for available positions, and maintains a list of available men.
4. Any book in the Society's library may be borrowed by a member,—on receipt of 10c for postage. The book to be returned not later than two weeks.
5. Educational Courses (see below).
6. Research—Facilities are available for research into specific problems within the field covered by the Society.

## FINANCIAL STATEMENT

### THE CANADIAN SOCIETY OF COST ACCOUNTANTS BALANCE SHEET AS AT 28th FEBRUARY, 1930

#### ASSETS

Cash in Bank .....	\$ 977.28
Province of Ontario Bonds 5%—1959 at cost .....	2,000.00
Accrued Interest thereon .....	33.33

\$3,010.61

#### LIABILITIES

Membership Fees received in advance .....	\$ 910.00
Donation for prizes not expended .....	105.00
Surplus—1st March, 1929 .....	\$1,474.89
For year ended 28th February, 1930.....	520.72

1,995.61

\$3,010.61

Examined and certified correct,

(Signed) FRED PAGE HIGGINS, F.C.A.

(Signed) C. H. PELLING, C.A.

#### REVENUE

Membership Fees .....	\$5,768.33
Less: Paid to Chapters .....	1,133.00
	<u>\$4,635.33</u>
Interest earned less exchange .....	76.36

\$4,711.69

#### EXPENDITURE

General Expenses, including Secretary's Salary and Expenses .....	\$2,343.96
Publications Expense .....	\$1,948.22
Less: Revenue .....	101.21
	<u>1,847.01</u>
Surplus for year .....	520.72

\$4,711.69

## EDUCATIONAL FACILITIES

Examination requirements for the issue of Certificates of Efficiency in Cost Accounting have been printed in pamphlet form and are available to anyone interested.

To assist members who wish to try these examinations, the Society, through its Chapters, may arrange for courses of instruction in the subjects specified. Those in Montreal will find the evening classes conducted by the School of Commerce, McGill University, suitable for the first examination. For Toronto and Hamilton members, special courses may be arranged with the universities, when the requisite number of students enroll. Particulars may be secured from Chapter officers.

## PRINCIPAL OFFICERS OF THE SOCIETY SINCE ORGANIZATION

### DOMINION

Year	President	Vice-President	Secretary	Treasurer
1920-21	Geo. Edwards, F.C.A.	Jas. Hutchison, C.A.	W. J. Valteau	W. J. Valteau
1921-22	Geo. Edwards, F.C.A.	R. J. Dilworth, F.C.A.	W. J. Valteau	W. J. Valteau
1922-23	Geo. Edwards, F.C.A.	R. J. Dilworth, F.C.A.	W. J. Valteau	W. J. Valteau
1923-24	Geo. Edwards, F.C.A.	R. J. Dilworth, F.C.A.	M. G. Dolan	John Craig
1924-25	R. L. Wright Wm. Carswell, C.A.	Wm. Carswell, C.A. R. J. Dilworth, F.C.A.	Henry Glover	G. H. Houston
1925-26	Wm. Carswell, C.A.	John Craig R. J. Dilworth, F.C.A.	S. B. Peckham	G. H. Houston
1926-27	John Craig	John Craig L. Belanger, L.A.	R. S. Smith	C. H. Houston
1927-28	L. Belanger, C.P.A.	James Turner, C.A.	L. P. Lortie, C.A.	G. H. Houston
1928-29	James Turner, C.A.	James Turner, C.A. R. R. Thompson, C.A.	(Editor and Manager, W. A. McKague)	G. H. Houston
1929-30	R. R. Thompson, C.A.	R. E. Love S. E. LeBrocq	G. C. Leroux, C.P.A. (General Sec'y, W. A. McKague)	G. H. Houston
1930-31	S. E. LeBrocq	H. E. Guilfoyle, C.A. H. E. Guilfoyle, F.C.A. W. J. Mundell, C.A.	G. C. Leroux, C.P.A. (General Sec'y, W. A. McKague)	G. H. Houston

### TORONTO CHAPTER (Organized 1923)

Year	Chairman	Vice-Chairman	Secretary	Treasurer
1923-24	R. L. Wright	H. T. Jamieson, C.A.	N. M. Bassin	G. H. Houston
1924-25	H. T. Jamieson, C.A.	N. M. Bassin	R. S. Smith	M. J. Smith
1925-26	H. T. Jamieson, C.A.	Jno. Craig	T. S. Jardine	R. S. Smith
1926-27	T. S. Jardine	James Turner	R. A. Burdett	C. H. Black
1927-28	James Turner, C.A.	H. E. Guilfoyle, C.A.	D. C. Patton	R. A. Burdett
1928-29	J. E. Carruthers	D. C. Patton	J. R. Pidduck	H. A. Shiach, C.A.
1929-30	D. C. Patton	R. Oaten	H. J. McQuillan	H. A. Shiach, C.A.
1930-31	R. Oaten	K. A. Mapp, F.C.A.	H. J. McQuillan	H. A. Shiach, F.C.A.

### MONTREAL CHAPTER (Organized 1924)

Year	Chairman	Vice-Chairman	Secretary	Treasurer
1924-25	Wm. Carswell, C.A.	L. A. Peto	D. M. Farish, C.A.	S. B. Peckham
1925-26	D. M. Farish, C.A.	A. Richards	E. W. King	C. E. Whitten
1926-27	L. Belanger, C.P.A.	R. R. Thompson, C.A.	F. Fernie	C. E. Whitten
1927-28	R. R. Thompson, C.A.	G. C. Leroux	D. R. Patton, C.A.	C. E. Whitten
1928-29	G. C. Leroux, C.P.A.	L. A. Peto	D. R. Patton, C.A.	C. E. Whitten
1929-30	L. A. Peto	C. E. Whitten	D. R. Patton, C.A.	L. Rhodes
1930-31	G. T. Bowden, M.C.I.	J. P. Masterson, C.G.A.	H. W. Blunt, C.A.	L. Rhodes

### HAMILTON CHAPTER (Organized 1925)

Year	Chairman	Vice-Chairman	Secretary-Treasurer
1925-26	Geo. R. Kerr	W. G. Donaldson	S. G. Richardson
1926-27	W. G. Donaldson	A. J. Finck	G. E. F. Smith, C.A.
1927-28	R. E. Love	A. E. Keen, C.A.	M. I. Long, C.A.
1928-29	S. E. LeBrocq	G. E. F. Smith, C.A.	M. I. Long, C.A.
1929-30	M. I. Long, C.A.	A. J. Finck	A. J. Mouncey
1930-31	G. E. F. Smith, C.A.	A. J. Mouncey	A. E. Keen, C.A.

### WINNIPEG CHAPTER (Organized 1928)

Year	Chairman	Vice-Chairman	Secretary-Treasurer
1928-29	F. C. Gilbert, C.A.	W. J. Mundell, C.A.	G. A. Phare
1929-30	W. J. Mundell, C.A.	W. J. Logan	R. H. Sims
1930-31	John Parton, C.A.	E. J. Burleigh	T. E. Saul, C.A.

### CENTRAL ONTARIO CHAPTER (Organized 1929)

Year	Chairman	Vice-Chairman	Secretary-Treasurer
1929-30	E. Tailby, L.A.	Geo. Earnshaw	C. J. Heimrich, L.A.
1930-31	E. Tailby, L.A.		C. J. Heimrich, L.A.

# THE CANADIAN SOCIETY OF COST ACCOUNTANTS & INDUSTRIAL ENGINEERS

## OFFICERS OF THE SOCIETY, 1930-31

**President**—S. E. LeBrocq, Steel Co. of Canada, Ltd., Hamilton.  
**Vice-Presidents**—H. E. Guilfoyle, F.C.A., Clarkson, Gordon, Dilworth, Guilfoyle & Nash, Toronto; W. J. Mundell, C.A., Ogilvie Flour Mills Co., Ltd., Winnipeg.  
**Honorary Treasurer**—G. H. Houston, Rolph-Clark-Stone, Ltd., Toronto.  
**Honorary Secretary**—G. C. Leroux, C.P.A., Income Tax Department, Montreal.  
**General Secretary**—W. A. McKague, M.A., 81 Victoria Street, Toronto.  
**Directors**—J. S. Anderson, C.A., Western Canada Flour Mills Co., Ltd., Winnipeg; L. Belanger, C.G.A., C.P.A., Montreal; G. T. Bowden, Steel Company of Canada, Ltd., Montreal; E. J. Burleigh, Manitoba Rolling Mills, Ltd., Winnipeg; J. E. Carpentier, C.G.A., 388 St. James Street West, Montreal; J. E. Carruthers, Durant Motors of Canada, Ltd., Toronto; Geo. Earnshaw, Guelph Carpet & Worsted Spinning Mills Co., Ltd., Guelph; T. S. Jardine, United Drug Co., Ltd., Toronto; M. I. Long, C.A., Clarke, Houston & Co., Hamilton; K. A. Mapp, F.C.A., Henry Barber, Mapp & Mapp, Toronto; J. P. Masterson, C.G.A., Canadian Industrial Alcohol Co., Ltd., Montreal; A. J. Mouncey, Norton Company of Canada, Ltd., Hamilton; G. M. Mulholland, F.C.A., Thorne, Mulholland, Howson & McPherson, Toronto; R. Osten, Gurney Foundry Co., Ltd., Toronto; D. C. Patton, Sangamo Electric Co., Ltd., Toronto; John Parton, C.A., George A. Touche & Co., Winnipeg; L. A. Peto, Canadian Car & Foundry Co., Ltd., Montreal; G. E. F. Smith, C.A., Richardson, Smith, Ferrie & Co., Hamilton; J. B. Sutherland, C.A., George A. Touche & Co., Winnipeg; E. Tailby, L.A., Kitchener; R. R. Thompson, M.C., V.D., A.C.A., C.A., McGill University, Montreal; James Turner, C.A., T. Eaton Co., Ltd., Toronto; Harry F. Wilson, Wilson & Fessenden, Kitchener.

## TORONTO CHAPTER

**Chairman**—R. Oaten, Gurney Foundry Co., Ltd.  
**Vice-Chairman**—K. A. Mapp, F.C.A., Henry Barber, Mapp & Mapp.  
**Treasurer**—H. A. Shiach, F.C.A., Rutherford Williamson & Co.  
**Secretary**—H. J. McQuillan, T. H. Hancock, Ltd.  
**Directors**—W. G. Donaldson, A. T. Reid Co., Ltd.; F. P. Higgins, F.C.A., Fred Page Higgins & Co.; T. S. Jardine, United Drug Co., Ltd.; W. M. Lane, Lever Bros., Ltd.; B. W. Lang, Goodyear Tire & Rubber Co. of Canada, Ltd.; D. C. Patton, Sangamo Electric Co., Ltd.; C. H. Pelling, C.A., Clarkson, Gordon, Dilworth, Guilfoyle & Nash; J. W. Spence, Canadian Kodak Co., Ltd.; R. F. Bruce Taylor, C.A., Edwards, Morgan & Co.

## MONTREAL CHAPTER

**Chairman**—G. T. Bowden, Steel Company of Canada, Ltd.  
**Vice-Chairman**—J. P. Masterson, Canadian Industrial Alcohol Co., Ltd.  
**Treasurer**—L. Rhodes, Consolidated Lithograph Mfg. Co., Ltd.  
**Secretary**—H. W. Blunt, C.A., Fisk Skelton & Co.  
**Directors**—D. M. Farish, C.A., Northern Electric Co., Ltd.; F. Fernie, A. R. Whittall Can Co., Ltd.; E. J. Loiselle, Canadian International Paper Co.; R. W. Louthood, Canada Power & Paper Co., Ltd.; D. R. Patton, C.A., R. Schurman & Co.; P. Probyn, C.A., Sherwin-Williams Co., Ltd.; Jean P. Rolland, Rolland Paper Company, Ltd.; C. R. Racine, Charles E. Frost & Co.; C. E. Whitten, Canadian Paperboard Co., Ltd.; P. W. Wright, Shawinigan Engineering Co., Ltd.

## HAMILTON CHAPTER

**Chairman**—G. E. F. Smith, C.A., Richardson, Smith, Ferrie & Co.  
**Vice-Chairman**—A. J. Mouncey, Norton Company of Canada, Ltd.  
**Secretary-Treasurer**—A. E. Keen, C.A., Thorne, Mulholland, Howson & McPherson.  
**Directors**—Andrew Ballantyne, Firestone Tire & Rubber Co. of Canada, Ltd.; N. V. Bechill, International Harvester Company of Canada, Ltd.; S. E. LeBrocq, Steel Co. of Canada, Ltd.; M. I. Long, C.A., Clarke, Houston & Co.; M. W. Matchett, E. D. Smith & Sons, Ltd., Winona; H. M. Ross, Mercury Mills, Ltd.

## WINNIPEG CHAPTER

**Chairman**—John Parton, C.A., George A. Touche & Co.  
**Vice-Chairman**—E. J. Burleigh, Manitoba Rolling Mills, Ltd.  
**Secretary-Treasurer**—T. E. Saul, C.A., Dunwoody, Nicholl & Co.  
**Directors**—H. Latter, Vulcan Iron Works, Ltd.; N. P. H. Menlove, Parkhill Bedding, Ltd.; W. W. McVey, C.A., Macdonald, McVey & Co.; S. R. Bates, International Business Machines Co., Ltd.

## CENTRAL ONTARIO CHAPTER

**Chairman**—E. Tailby, L.A., Kitchener.  
**Vice-Chairman**—G. Earnshaw, Guelph Carpet & Worsted Spinning Mills Co., Ltd., Guelph.  
**Secretary-Treasurer**—C. J. Heimrich, L.A., Cluett, Peabody & Company of Canada, Ltd., Kitchener.  
**Directors**—C. T. Black, Canadian General Rubber Co., Ltd., Galt; E. J. Miller, Globe Furniture Co., Ltd., Waterloo; A. H. Schlegel, Canadian Office and School Furniture Co., Ltd., Preston; E. R. Scott, Babcock-Wilcox and Goldie & McCullough Co., Ltd., Galt.

## REPORT OF PRESIDENT AND DIRECTORS

Year ended February 28, 1930

The past year has been one of further growth for the Society. This is evidence of increased interest in cost work and in what the Society is doing for the aid of business.

The following is a comparison of the membership with a year ago:

	March 1, 1929			March 1, 1930		
	Sen.	Jun.	Total	Sen.	Jun.	Total
Montreal Chapter .....	92	13	105	98	12	110
Toronto Chapter .....	89	19	108	92	29	121
Hamilton Chapter .....	34	25	59	36	24	60
Winnipeg Chapter .....	40	16	56	35	10	45
Central Ontario Chapter .....	....	....	....	18	5	23
Elsewhere .....	29	....	29	....	....	....
Total .....	284	73	357	279	80	359

In the new figures all members in arrears have been omitted, and the actual gain for the year is therefore greater than indicated.

The membership is now all classified by Chapters, each member being attached to the most convenient Chapter.

### Finances

Our revenue for the year, from membership fees and other sources, was \$5,945.90 compared with \$5,412.00 the preceding year. The growth in the Society's work has required some increase in the expenditure, but a surplus of \$520.72 remained for the year, which, added to \$1,474.89 accumulated from preceding years, gives us a credit balance of \$1,995.61. This is held in Province of Ontario bonds and in cash. The Society has no investment in office equipment, and our stock of our own and other literature has been paid for out of current revenue.

### Chapters

We believe that the Society should be extended through the organization of Chapters wherever there is sufficient interest in cost work. Accordingly, during the past year a Central Ontario Chapter was started, meetings of which were held in Kitchener, Galt and Guelph; this is one of the leading manufacturing sections of Canada.

The Chapters receive 20 per cent of the membership fees for their local expenses. The following is a summary of their financial statements for the year:

	Balance Brought Forward	Receipts	Payments	Balance Carried Forward
Montreal .....	\$345.37	\$388.57	\$290.36	\$443.58
Toronto .....	97.08	545.75	440.87	201.96
Hamilton .....	33.32	163.41	138.62	58.11
Winnipeg .....	20.73	177.61	124.88	73.46
Central Ontario .....	.....	40.00	27.15	12.85
Total .....	\$496.50	\$1,315.34	\$1,021.88	\$789.96

A total of approximately fifty meetings were arranged and held by our Chapters during the season now ending. This is more than in any previous year, and the interest in the meetings has been evident.

The Society should be able to add one or more new Chapters during the current year.

#### **Publications**

The amount of material in our monthly Cost and Management was increased by about 30 per cent during the year. Our publication is becoming known outside of Canada, and a little revenue is now received from subscriptions and sale of copies.

A pamphlet was also published covering the by-laws and general work of the Society, and giving the names of the members.

#### **Employment**

To improve our employment service, we have obtained particulars of the experience and other qualifications of some 75 cost men who are available for new positions. While few openings have come to our attention in recent months, no doubt because business is quiet, some of these men have been placed, and we are in a position to give real help to anyone requiring a man of experience.

#### **Reference Library Extended**

Our central reference library has been extended, and now includes over 500 books and articles on costing and related subjects. It is completely indexed and is available to any member. A growing proportion of our members have made use of this service.

#### **Visits by President**

While on a personal tour of the west last summer, President Thompson addressed meetings in Winnipeg and Calgary, and met a large number of our members. In January he addressed our Toronto, Hamilton and Central Ontario Chapters.

#### **Summary of Costing Practice**

Last December we sent out a questionnaire to 600 manufacturing concerns, to ascertain the progress of cost work in Canada. A summary of the replies was published in our March number, and proved of interest to members and others. We feel that this Society may be the means of gathering useful information in this way, on costing and related problems.

#### **Topic For Year**

"The Tie-in of Factory Records" was selected as a topic for discussion in all our Chapters at one or two meetings in the past year. This material will be published shortly. While the handling of the topic was not always systematic, the results should be of some value. It was an experiment, and we believe the idea of a uniform subject should be continued.

#### **Name of the Society**

The name of the Society has been discussed by our board, and at Chapter meetings, and after considering all suggestions received, we now recommend that the name be changed to—The Canadian Society of Cost Accountants & Industrial Engineers.

R. R. THOMPSON, President.

W. A. McKAGUE, General Secy.

# COST STUDIES PUBLISHED BY THE SOCIETY

(September, 1926, to July, 1930)

(Copies available at 50 cents each)

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# COST *and* MANAGEMENT

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## Cost System of a Paper Company

By A. LANTHIER,

*Rolland Paper Company, Ltd., St. Jerome, Que.*

(Before Montreal Chapter, November 7th, 1929.)

I FEEL honored to be called upon to speak this evening before members and guests, and I will do my best, in my own small way, to explain the cost system at present used in our Company, and give my modest contribution to our Society.

It is anticipated that actual experience in the working of the system will enable improvements and modifications to be made from time to time, and it is not intended that the actual form, or manner of working this cost should be considered as final.

Before going further with the cost system itself, allow me, gentlemen, to give you a brief idea of the processes used in the making of paper. The raw materials are divided in five principal parts, namely, rags, pulp, paper shavings, chemicals and colors. These are charged in the beaters in such proportion and grade as to give the desired quality. From the beaters, the stock is delivered by means of pumps, to the paper machine in a continuous operation, until it has been turned into a dry sheet of paper.

Previous to this, we must observe, however, that some raw materials are not used in the beaters, in the same form in which they are bought. In certain cases it will be necessary to prepare them. For example, the rags have to be dusted, sorted, cut in pieces, boiled, washed, bleached and then stored in drainers for at least three weeks before they can be used in the beater; the same applies to paper shavings, which have to be sorted and reduced to a wet stock before they can be used.

Many of the chemicals need also to be prepared for use in the liquid form.

In this mill, each paper machine has its own set of beaters, the capacity of each being 1,000 lbs. of paper dry.

The function of the paper machine is to take the wet stock supplied by the beaters and transform it into dry sheet. At the end of the paper machine, the paper is wound into large rolls, and at this point, we may say that for our purpose, the manufacturing operation has been completed.

The intermediate department takes in a series of mechanical operations previous to entering the paper in the finishing department, namely: loft drying, air drying, rewinding, calendering, hydraulic pressing, cutting, and up until and including the point where it has been delivered to the sorting girls. After the foregoing operations, we consider the paper as entering the finishing department.

In this department, the paper is sorted, counted in reams, and trimmed. This last operation is considered as the end of the finishing.

## COST SYSTEM OF A PAPER COMPANY

Packing: the paper is wrapped in reams, labels are fixed to the reams and stamped, reams are placed in cases which are delivered to the stock room or to the cars for shipment as the case may be.

Now, gentlemen, allow me to explain briefly our cost system.

### **Relation of Cost Records to General Accounts in Operating Ledger**

The cost records are kept at the mills and consist of material, labour and production reports, and summaries. The factory overhead is applied on a machine hour basis, after having been divided as between the various machines.

Inventories at the mills, consisting of finished stock, work in process, raw materials and supplies are kept in the mill books. The inventory of manufactured stock at Montreal is kept at the head office general ledger.

The various raw materials inventory accounts are debited monthly with the cost of purchase obtained from the analysis of purchase invoices, together with the freight and duty thereon, handling and unloading charges. Monthly credits are made to these accounts to cover cost of materials used, obtained from a monthly summary of the mill requisitions.

Exception is made for Raw Rag Inventory Account and Chemicals Account.

*The Raw Rag Inventory Account* is debited monthly with the cost of purchase, together with freight, duty, handling and unloading charges. Monthly credits are made to this account to cover the cost of raw rags transferred to the rag department for sorting and cleaning.

*The Rag Department Inventory Account* is debited monthly with the transfer from the Raw Rag Inventory Account, together with wages and chemicals used in this department, and it is credited with the cost of prepared rags transferred to the drainers.

*Half Stock Inventory Account* is debited monthly with the transfer from Rag Department Inventory Account and is credited monthly with the materials transferred from the drainers to the beaters. The weights are obtained from the beater reports which take care of the estimated loss through shrinkage.

*Chemicals Inventory Account* is debited monthly with the cost of purchases together with freight, duty, handling and unloading charges thereon. Monthly credits are made to this account to cover the cost of chemicals transferred to the tanks for preparation.

*Chemicals in Tanks Inventory Account* is debited monthly with the cost of chemicals transferred from the Chemicals Inventory Account, together with preparation wages and is credited with prepared chemicals transferred from the tanks to the beaters. The weights are obtained from the beater cards.

*Work in Process Inventory Account* is debited monthly with the cost of raw materials, factory expenses and materials, and wages absorbed, and is credited with the cost of finished paper and paper shavings produced.

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*Finished Paper Inventory Account* is charged monthly with the cost of paper manufactured, referred to above. The account is credited with the cost of paper sold to customers, and that shipped to our Montreal warehouse, which cost is debited to Mill Control Account.

After the above entries have been made at the end of each month, the balances in the raw material, factory general expenses and materials, work in process and finished paper accounts will represent respectively, the inventory of these items. A comparison can be made with the actual stocks on hand by taking a physical inventory at the close of any month desirable.

Besides the above mentioned accounts in the Mill Operating Ledger, we have the different wages accounts, a few adjustment accounts, an inter-mill Control Account and a Head Office Control Account. The inter-mill accounts should reconcile in the ledgers of the Mont-Rolland and St. Jerome Mills, and the Control Account reconciles with the Mills Control Account on the Montreal books.

*The Head Office Control Account* is credited monthly with the amount of purchases, wages paid, factory expenses and materials, and debited with cost value of paper shipped.

### General Statements

For the preparation of the monthly Balance Sheet and Profit and Loss statement, each mill sends to the head office a trial balance of the different accounts of the Mill Operating Ledger, and a report, giving the stock cost, conversion cost, finishing and packing cost of the month's production.

I shall not explain here the Balance Sheet nor the Profit and Loss Account, as these are prepared by the head office.

The records of sales and cost of marketing are kept by our Montreal office. Consequently the number of pounds of each grade of paper sold are sent to both mills at the end of each month, and these quantities are multiplied by cost price of each grade per hundred pounds so as to find the cost of sales, and this enables each mill to find the book inventory of finishing paper.

Deductions for freight on paper, allowances or returned goods as well as Marketing Cost consisting of commissions, selling expenses, loading, demurrage, etc., are not added to the cost of the finished product, but are deducted by the head office from the sales calculated at selling price. This gives the *Net Receipts*.

### Details of Cost System

Now let us go in the details of the Cost System.

A manufacturing programme is prepared at the end of each week for the machine tender's and beaterman's guidance for the following week. This programme shows the quantities of each grade of paper to be made during the week. It is prepared by the cost accountant in conjunction with the mill superintendent after taking into consideration the stock of paper and the unfilled orders on hand. When this schedule has been prepared and it is decided on which grade of paper work will be commenced, the mill superintendent prepares the required formula, and, beater cards are written from this formula by the head

## COST SYSTEM OF A PAPER COMPANY

beaterman, showing the raw materials to be used in each beater. The process of making this particular grade of paper now commences, and materials placed in the beaters are charged at actual cost price. It might be well to mention at this point that certain materials cannot be used in the same form as received, it is therefore necessary to prepare this class of material so as it may be used in the process, adding to the initial cost, the cost of preparation, and the head beaterman and machine tender submit their respective reports daily. The machine tender's report gives the following details:

- (1) The quality and quantity of paper made at the end of the machine.
- (2) Numbers of lots.
- (3) Number of machine hours spent on each lot.
- (4) Number of machine hours lost.

Lot numbers will be given to each size of paper made by the machine tender when the paper comes through at the end of the machine, and all the various sizes of the same grade of paper made, are considered as one run and are grouped together with a view of obtaining a unit cost for the entire group.

A new run commences when work is started on a different quality of paper.

When a lot number is given to a roll of paper the machine tender starts a route sheet which remains with the lot through each department until the paper is packed and ready for shipment. This form is then sent to the mill cost accountant showing that the lot is finally finished, and when he has received all the route sheets of the many lots which constitute a run, his cost records for that run may be completed.

All materials, wages and expenses entering into the cost of paper made, are charged whenever possible directly to the run on which they are used.

Overhead charges and wages not directly applicable to any lot are the most difficult of all expenses to distribute accurately in a high grade paper mill.

After a careful study of the whole matter, in conjunction with our president and our auditor, we consider that the fairest and most practical method of distribution, is to allot these expenses to the various machines in proportion to their importance, their width, their age and also the auxiliary machines working in conjunction with each, and to absorb them in the different runs on a machine hour basis.

### Method of Recording Costs in Cost Record Recapitulation Book

In an industry like ours, it is desirable that the cost system should be as simple and elastic as possible, endeavouring at all times to obtain reliable results. In view of obtaining this result, we have designed a book which shows a complete detailed analysis of the materials used, wages and overhead absorbed in each run of paper. The general headings of this record are four in number, namely, 1° Raw Materials,

## COST AND MANAGEMENT

2° Mill Supplies and Expenses, 3° Manufacturing Wages, and 4° Finishing Wages. The total amounts absorbed by each run under these four general headings give the total cost of each run. From this total we deduct the value of the paper shavings which are returnable to the beaters at a fixed price. The balance is the total cost of each run.

The first thing to record in this book is the machine tenders' report, grouping under the same run number the different lots made of the same grade. We record the date, the number of the run, quality and quantity of the paper, the lot numbers, number of machine hours spent on each run. Then start the records of cost. The different raw materials loaded in the beater are charged at prepared cost, the quantities are obtained from the beater cards being made for each beater.

The prices are obtained from different sources as follows: For raw materials which are taken from stores and loaded directly into the beaters without any previous preparation, we find the unit cost for each purchase in each grade of material. This method obliges us to keep a store ledger for raw materials. On the debit side we record quantity, actual cost value (including freight, duty and unloading charges) and the unit cost of each purchase; on the credit side we record the consumption in pounds, and when the quantity of the purchase has been all used, we start using the next purchase material in the same manner. This is rather easy to follow, as the majority of our raw materials are bought under contracts for one year and consequently prices are the same for that period.

Raw materials which have to be prepared before loading them in the beaters, cost prices are found in a different manner. Allow me, gentlemen, as an illustration to explain the manner employed to find the cost of rags (half-stock) in the drainers.

Raw rags are transferred to the rag department at cost of rags (including freight and unloading) by quantities of 7,500 lbs, which is approximately the capacity of our rag boilers.

To this cost is added the cost of sorting, and chemicals used in boiling and bleaching a boiler of rags.

The rags are then transferred to the drainers. I may point out, that during the process of preparation, there is a loss through shrinkage, and this loss is one of the difficult problems we have in a paper mill to handle. We find the shrinkage by tests made on each grade of rags, and use these results on the subsequent rags that are prepared. These rags are loaded in the beater in a more or less wet form, so tests are taken from time to time so as to find the exact dry weight of a box. Each rag boiler transferred to a drainer is numbered and a report of the drainer number in which it has been transferred is recorded in a book called the Rag Boiler Record. We find from this book the number of boxes of a given weight, and the price per 100 lbs. of the half stock. Each time a box of half stock is loaded in a beater, the number of the drainer is marked on the beater card, and deductions as to quantity are made in the Rag Boiler Record Book, and in so doing, we know when a drainer of rags is all used.

## COST SYSTEM OF A PAPER COMPANY

When the different materials have been recorded in their respective column, they are totalled in a separate column.

### Record of Mill Supplies and Expenses

The second step is the Record of Mill Supplies and Expenses. This heading is subdivided as follows: Repair and Maintenance Material, which includes also all kind of expenses made during the month, Fuel, Electric Power Purchased, Wires and Felts for the paper machine, Packing and Shipping Materials.

All these supplies and expenses are allotted to the various runs calculated on a machine hour rate after they have been allocated to the various machines.

The total expenses to be absorbed during the month by each machine are divided by the number of hours in the current month to obtain a unit cost per machine hour. This rate is used for distributing these expenses over the various runs.

We have previously explained the monthly distribution of these expenses to the various machines.

The amount of mill overhead applicable to each run is then obtained by multiplying the number of machine hours on any particular run by the unit cost per machine hour for the month.

That portion of the overhead which remains unabsorbed at the end of the month due to the machines not being in continuous operation for the whole month is carried forward and added to the proportion of overhead to be taken care of in the subsequent month's runs.

If the machine, however, should cease operations for an extended period to effect repairs or for other reasons, it might be necessary to spread the unabsorbed portion over a longer period than one month.

I must explain, however, that we absorb in the actual month's runs, the value of the different supplies and expenses that have really been used the preceding month, according to stock book. This has been made necessary, on account of the importance there is to give the management a report on the cost of each run immediately after completion.

*Manufacturing Wages.*—This heading has been subdivided as follows: Manufacturing Wages, Boiler House Wages, Repairs and Maintenance Wages, Office and Superintendence Wages. These are considered as indirect wages and it would be difficult to allocate them actually on the present runs. It is necessary to use the preceeding month's wages and distribute them on the actual month's runs on a machine hour basis.

Furthermore, to arrive at exact figures for different wages, we have planned a Wages Distribution Book, in which we record the total wages of each day under the different necessary headings.

This book is balanced every two weeks with the payroll book.

In order to obtain this result, we have planned forms on which the foreman of each department gives a daily report of the wages paid by his department.

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These forms although different, are all of the same basic principle. The cost accountant gives each foreman a list of his regular staff of employees, their hourly wages and the total amount of wages for a regular day's work. On this form he records the wages for the day. Space is reserved for extra and missing employees.

He adds to the amount the extras, and deducts wages of missing employees. This gives the exact amount of wages paid in his department.

These forms are sent to the office every morning and they are recorded under their proper heading in the Wages Distribution Book. From this book we have the amounts of wages to be allocated on each run for the next month.

It may be believed that this method of obtaining from the foreman the amount of wages paid every day in each department is giving trouble and is complicated, but our own experience shows that such is not the case.

### Finishing Processes

Now, we are at the last part of the system: *The Finishing Room*. It may be necessary to split the cost on a run before the paper finally arrives at the finishing room, because occasionally a run of paper is divided after coming off the end of the machine, a part being loft dried and a part being festoon or air dried, and it is very essential to know the difference in cost of both processes, or, else, when at the end of the month, runs are partly finished and partly unfinished, lots finished are recorded separately from those unfinished. This enables us to obtain accurate figures for the two inventory accounts: Paper Finished, and Paper in Process. Special columns have been reserved in the Cost Recording Book for the splitting of runs, when necessary. Our method is to split the charges accumulated to the run up to this point, in proportion to the quantity made in pounds on the paper machine in each group of lots, finally we add the Finishing Wages which are direct wages.

The Finishing Wages have been subdivided into three parts, namely: Intermediate Wages, Finishing Wages, and Packing Wages.

*Intermediate Wages* are wages paid for operations completed in the Intermediate Department previously explained. These are allocated to the different lots according to the number of hours spent on each.

*Finishing Wages*.—Sorting Wages in the finishing department are entirely on a piece work basis and can be charged directly to the proper lot. Other wages paid in this department on a hourly basis are distributed over the various lots in proportion to the number of hours spent by the sorting girls on each lot.

*Packing Department Wages* are paid on an hourly basis and are distributed over each lot in proportion to the number of hours spent by the sorting girls on each. The reason why we allocate these wages to each lot on the sorting girls' hour basis, is because these employees are packing the paper produced by the sorting girls. If the paper is clean, the sorting girls will produce more, and on the other hand, if

## COST SYSTEM OF A PAPER COMPANY

dirty, they will produce less. Consequently the same staff of packers will pack more or less paper for the same amount of wages paid. This method will show a lower cost per 100 lbs. for packing paper which has come clean to the sorting tables and a higher cost for paper which has been delivered defective in the hands of the sorting girls.

When we have recorded all this in the Cost Book, the total of the items gives the total cost of the run.

From this total we deduct the value of paper shavings produced by each run, at a conventional price, and the final result is the net cost of the run; this divided by the finished weight gives cost price per 100 lbs.

A special column called Work in Process has been reserved in this Cost Record Book, in which we record the cost value of the unfinished runs or portion of runs, at the end of each month.

This column should balance with Work in Process Inventory Account, in the Operating Ledger.

### Record of Cost of Completed Runs

In the above mentioned book finished runs are written under their proper quality heading as follows: Date, run number, quantity in pounds finished and net cost value. At the end of the month we take the average price per 100 lbs. and this price is used in calculating the Cost of Sales, in order to obtain a book inventory of the Finished Paper.

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## SURVEY OF MILK PRODUCTION COSTS

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**T**HE Province of Quebec Department of Agriculture is conducting a study into costs of milk production. Some thirty reports have been handed in, and an interim analysis shows great variations in the cost of production. Some farms can produce a gallon of milk for 20 cents, while on others the cost runs up to 36 or 37 cents per gallon.

There is no doubt that the methods used have a definite bearing on the cost of milk. The yield per cow, for instance, appears to be one of the most important factors. It is apparent that the low-yielding herds produce milk at the highest cost. It is noticeable also that, with the same feed bill, the yield of the herds varies considerably. The conclusion is that the quality of the milk cows is not the same on each farm, and that it is of prime importance to the dairyman to choose carefully the cows kept in the herd. The labor, the shelter and the shipping expenses are nearly the same in each case. Great care was taken to take only farms representing the average conditions. Of course, for the three items previously mentioned there are some variations—and it would be impossible to have none—but these variations represent only factors of minor importance.

The department is not yet prepared to give an idea of the average cost, as enough evidence has not yet been gathered. The final result will be itself subject to some qualifications, because the year 1928, which offers the only figures available, was not a very favorable one.

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## Remarks on Depreciation

By FREDERIC W. SQUIRES, C.P.A.

(Before the Hotel Accountants' Association, New York.)

(Reprinted from The Certified Public Accountant.)

I HAVE been asked to address you to-night on the subject of depreciation, which has become of major importance through the efforts of the Bureau of Internal Revenue to bring about depreciation studies with the voluntary co-operation of organizations nationally representative of various industries or branches of industry. The subject is broad and far-reaching, has so many angles of approach, and is handled by taxpayers and their counsel in so many different ways that I do not believe the wisdom of Solomon would enable one to cover the whole theme of depreciation adequately in a twenty-minute paper. Therefore, parts of the subject I shall touch upon with generalizations only.

One feature of the subject that I wish to emphasize, however, is that it is my belief that the Commissioner of Internal Revenue, in his recent bulletin on the subject of depreciation studies by industries, has, in the main, stated the fundamentals of depreciation accounting so soundly that his theses are practically incontrovertible. And first among these is the thesis that "... useful life in years is the basis of any depreciation accounting method."

As I have already indicated, the subject of depreciation is a matter which can be gone into in great detail and in a very technical manner, with long citations of all the authorities, with references thereto and extracts therefrom. But that appears to be superfluous, because in this day and age it is quite unlikely that business men will be found who do not know and understand the general principles, and to burden you with a lot of technical detail would be rather an imposition. And, inasmuch as even accountants differ among themselves as to their application, I am going to try to avoid that pitfall to-night.

The Bureau of Internal Revenue states the meat of the matter in the following words:

### An Official View

"An investment in depreciable property is regarded by the Bureau of Internal Revenue as a prepaid operating cost, returnable through deductions for depreciation over the useful life of such property."

A prepaid operating cost in its simplest form is best illustrated by the item of fire insurance for which you pay a premium in advance for a period of one or more years. You enter this item on your books as an asset, and then, if the policies are written for one year, you charge to expense monthly one-twelfth of the total premium, and at the end of twelve months the entire premium has been charged to expense and no asset value remains.

The useful life may be defined as the period during which, subject to ordinary repairs and maintenance, an item of depreciable property may be used in a business, and depreciable property means generally property with a life longer than one year.

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If we thus start with a clear and concise conception of the meaning of depreciation in its relation to the investment in capital items I think what follows will be of more interest to you than would be the case if I had left it to your imagination.

For business men not particularly concerned with the philosophy of accounting theory the object of depreciation is to recover out of profits the cost to them of the asset which is wearing out in rendering the service for which it was acquired; so that, when its useful life has been concluded, they will have a sum reserved equal to its cost unless it shall have become obsolete from unexpected causes before that reserve is fully accrued.

The amount of the depreciation charge must be added to the expense of doing business in order that our costs figured out preparatory to determining our selling prices may not omit this important item of expense; because the fully recovery can be made only out of sales prices predicated upon costs which include every known expense of the business.

### Neglect May Cause Failure

An old business acquaintance of mine, a prosperous manufacturer, has always been very insistent that in his accounts the requisite provision for depreciation be made regularly each month; and the explanation of his attitude arises from the fact that in his early days he happened to be drawn into service as receiver in the failure of a shoe manufacturing business and found out that the underlying cause of the failure was the neglect of any recognition of depreciation in compiling the costs.

Perhaps the lack of interest displayed in the subject on the part of some business men in the past, and even some of the present day, is that the wearing out of a physical asset used to produce the product of a plant is not visible to the eye, because the piece of equipment is still in use, rendering the service for which it was acquired, and there is no immediate need for funds to replace the item. If the item were as quickly consumed as a quart of lubricating oil the necessity for providing the recovery of its cost out of profits would be more clearly apparent.

Another factor which sometimes influences business men is the fact that when a provision for depreciation is made the cash balance is not affected, and, consequently, they fail to see the necessity for making the provision. They lose sight of the fact that the charge for depreciation is one of the operating costs of the business upon which the sales prices are determined, and that that is the important fact, and not when the money is to be expended to replace the exhausted asset.

Still another factor which has a great deal to do with the business man's attitude toward depreciation is that he is constantly making repairs and replacements to keep his plant in the condition necessary for it to do its work, and he, therefore, believes that he is in effect making a double charge against his income by including a charge for depreciation. This point is always emphasized in his mind when he has an appraisal made, and finds that the reproductive cost new as depreciated by the appraiser is considerably in excess of his depreciated book value. This cannot be helped, so far as I can see, because

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the appraiser makes his appraisal based on current values on the then condition of the equipment as a going concern, regardless of its cost except where just bought new, regardless of the heretofore estimated life of the equipment, and regardless of the length of time the business may continue. The appraiser arrives at what he calls the true depreciation as contrasted with the theoretical depreciation arrived at by the accountant. But it is all for an entirely different purpose from that sought by accountants.

It seems rather unprofitable to argue these points for the purposes of this paper for three reasons:

(1) The accounting method is the common method for arriving at depreciation provision for the determination of costs.

(2) The Federal Government will allow the taxpayer to take depreciation only on cost or other capital bases recognized by the revenue acts over the estimated useful life of the equipment.

(3) The method of the Federal Government should produce "true" depreciation from an accounting standpoint.

### Objects of Accounting and of Appraisal

However, it might advantageously be pointed out here why it is difficult for the business man to keep in mind the distinction between the objects of sound depreciation accounting and those of an appraisal.

In the former case the proprietor must provide for the recovery of his capital investment out of his earnings during the ordinary course of business. That is the accountant's job. It is usually done by depreciation charges wisely apportioned over an appropriate period.

In the latter case there may arise at any time the question of a sale of the business, in which case the investor has opportunity to get back the whole of his remaining investment, with perhaps a satisfactory profit. Or the problem of refinancing may become imminent, or insurance adjustments impend. In these emergencies the services of the appraiser as outlined above have become a recognized means of establishing a value of physical assets for such purposes.

Questions have also been raised as to the status of the balance sheet values from a credit standpoint when based on accounting or theoretical depreciation, and also in respect to the fact that if the depreciation charges are excessive stockholders may not receive adequate dividends, and the value of their stock may be reduced below its real value so they can not obtain a fair price when it is offered for sale.

The answer to such questions seems to lie in the fidelity with which the board of directors has been fulfilling its duties and also in the financial policy the directors have pursued, as well as the accounting advice they have received. Even if they are creating a secret reserve, knowingly or in ignorance, nevertheless, as long as their methods of management are intended to serve all with equal justice, it would appear that the stockholder who has the principal of his investment safeguarded even in such a way is much better off than one who is not adequately protected. It also appears to me that if the stockholder takes pains to inform himself as to the condition of the company he will usually be in a position to negotiate a satisfactory

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sale of his holdings. With listed securities his market is always available. But even listed stocks may be selling (and frequently are) at prices either above or below the book value thereof.

The depreciation theory of the Federal Government provides for recovering the cost, or other capital bases recognized by the revenue acts, of the depreciable item over its useful life, but it provides a safety valve, for when it is ascertained that an error has been made in the estimate of such useful life it then grants permission for an adjustment in the term of useful life, and the depreciation provision may be revised. This is a simple and equitable proposition; the difficulty lies in following the rule without undue red tape and elaborate accounting procedure. This is particularly true when a composite rate is used.

If the hotel industry will come to an agreement as to schedules of item lives, which schedules each hotel may with safety use, then it remains only for the individual hotel to make its own calculations and arrive at its own class rates and its own composite rate. This composite rate, so far as I can see, will differ with every hotel, as will the class rates, because the determining factor is the amount invested by each hotel in individual depreciable items which will rarely be found to be the same in any two instances. From theoretical studies I have made it appears that wide variations in rates would occur, far greater than the 20 per cent. flexible range either way proposed by the Bureau, and it, therefore, appears to me that if agreement is reached as to the life to be applied to each item of hotel equipment then the Bureau should, as it readily could, amend its rules to provide that individual hotels which have arrived at rates strictly upon the basis prescribed by the Bureau should not be restricted by a 20 per cent. limitation.

### The Composite Rate

There is but one correct way to arrive at a composite rate and that is to take the sum of depreciation on individual items and divide it by the total cost of all the items. You can take the individual items of a hotel and group them in any way you have a mind to and arrive at class rates for each group which may be different from anything ever before shown, yet the composite rate on all the equipment of that hotel will remain the same for that hotel if calculated on the correct basis.

The Bureau states with regard to composite rates: "But sound accounting practice requires that when depreciation is allowed upon the basis of a composite rate no losses are allowable upon disposal of property."

"This, of course, does not apply to losses affecting the property as a whole and unforeseen contingencies, such as fire, storm, sudden obsolescence, and other casualty, which losses should be considered upon a proper basis with both the item and composite rates of depreciation."

The foregoing extracts indicate some of the pitfalls which attend the introduction of composite class rates and a composite total rate, and I am not so sure but that there may be found other matters to cause concern. For example, how far will standard rates be effective, once they are agreed upon? Will they apply only to new operations commenced after their determination and acceptance? Will they be

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made retroactive in so far as the revenue acts will permit? Will it be necessary for each hotel to draw a line and start a new set of depreciation calculations based on them or can all hotels continue on their old bases established prior to the introduction of new rates?

These questions are important and, so far as I can see, have not yet been determined, but it would seem that if there is any doubt as to the attitude of the Bureau in regard thereto it should be resolved at an early date.

Everyone, I imagine, is more or less indifferent to problems of this nature until such a problem comes home to roost on his own doorstep and is found to be very difficult of solution. Then he would like to find immediately some reliable base upon which he may depend for the disposal of the problem. Right there his trouble begins, because he will generally find that much has been written of equally convincing nature on both sides of the question. Opinions of experts will differ, and he is generally at sea on the whole proposition. Perhaps this condition can never be remedied, but should there not be made an effort to remedy it?

### Practical Methods

The answer, of course, is yes, but how can it be done in a practical way without too much expense? Research costs money. If it is to be done on a large scale the proper persons must be found to head the project; there must be an organization to develop the plan and carry it through to a successful conclusion within a definite budget allowance. In general, all the machinery necessary must be made available to make research work worth while.

The individual hotel, however, may find itself so situated that it can carry out its own research work if complete records are available of the item investment in depreciable assets, or it may have a recent appraisal from which this information can be assembled. If it then determines the age and useful life of each item from its own knowledge and experience, supplemented by inquiry where in doubt as to the particular life applicable to any item, it will have all the factors requisite for a determination of a composite rate, and it can also establish classes or groups and arrive at class or group rates. There appears to be some difference of opinion among accountants as to the content and the terminology which should be used to designate these classes or groups. The Bureau defines them as:

"Groups of related items with similar physical characteristics and similar periods of useful life."

With this definition to start with it should not be difficult to reach an agreement as to uniform classes and groups.

The Hotel Accountants' Association has been engaged intermittently, as time and opportunity afforded, in a study of depreciation for approximately two years. This study is now before the depreciation committee in the shape of a formal report for consideration. There remain, however, certain features of the study which seem to require much more intensive research.

The American Hotel Association of the United States and Canada has recently conducted an extensive inquiry on the subject of depreciation rates upon the request of the Commissioner of Internal Revenue.

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The results have just been published in pamphlet form and distributed to the members of that association and, so far as I know, may have already been submitted to the Commissioner. I desire to compliment the hotel men on the extent and the apparent purpose of their work. It appears to have been inspired by the same earnest purpose as our own report, and seems to have covered the country pretty thoroughly. I have not had an opportunity to study the report in detail, but I personally feel that a timely service has been rendered the hotel industry, and that when our report is completed and published the added information which will then be available to the Commissioner (who has requested a copy thereof) and to the hotel men at large will be invaluable for reference purposes in reaching a decision as to depreciation rates. Certainly the foundation will have been laid upon which future depreciation rate studies can be carried out more effectively.

### Official Recommendations

Let us review the recommendations of the Bureau of Internal Revenue, for it seems to me that the principles of depreciation are expressed therein very clearly:

**First.** Investment in depreciable property is regarded as a prepaid operating cost.

**Second.** Depreciation by items or groups of related items with similar physical characteristics and similar periods of useful life is the soundest basis of depreciation accounting.

**Third.** The useful life in years, of each item, is the only sound basis of establishing rates of depreciation.

**Fourth.** Schedules listing asset items, or classes of items used by departments of an industry with the estimated average useful life of each item or class of items, are the only schedules which will serve the desired ends.

**Fifth.** Composite rates are approved as a method, if determined from the basis of the useful lives of items.

**Sixth.** Composite rates do not permit the determination of loss on the disposal of individual items.

**Seventh.** Even with composite rates determined by guess, it eventually becomes necessary to determine item costs. It is easier to do this at the outset than later.

**Eighth.** An asset sold after a fixed term of life is partly expired must be depreciated by the new investor over the remainder of the fixed term, and, therefore, at a higher rate.

**Ninth.** Mere salvage value should not be further depreciated.

**Tenth.** Practical and theoretical accounting conflict in practice. Full theory requires too much labor; 85 per cent. to 90 per cent. is sufficient detail of itemization.

**Eleventh.** Percentage rates unaccompanied by a statement of accounting policy are meaningless. No variation of accounting policy can alter the useful life of an asset.

From the foregoing it is apparent that the only correct base is the useful life of an item. If that is so is it going to be practicable for the hotel industry to find out what the average useful life of each

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item of equipment is? If that question can be answered in the affirmative, then the question is reduced to building up a complete list of items forming the equipment of a hotel and the investment in each item for the determination of the amount of depreciation to be provided.

### Criticisms

It is appropriate to point out here one or two contentions of the government in this bulletin which appear to me open to exception.

(6) It does not seem to me impossible to compute losses even where composite rates are used—if we have item schedules as a basis of the composite rates. If the composite rate is established by guess, or general estimate, I would concede the government's position, but not otherwise.

(8) An old asset partly depreciated, purchased by a new inventor, perhaps for a new purpose, may readily have acquired, in the hands of the new owner, a new period of useful life. Therefore, the contention that it has precisely the remainder of its originally assigned period of useful life left for recovery of capital does not seem tenable in all cases.

(9) Salvage value being only estimated, it seems to me that depreciation should continue until the asset investment is fully recovered. Anything realized on the sale of the fully depreciated asset would thereafter be income.

(11) It is not always clear what the Commissioner means by the words "accounting policy." A more concise definition here would be very helpful.

In addition there are special elements of peculiar importance in the hotel business which may cause a modification in the method of determining depreciation. I refer to—

(1) Leasehold limitations.

(2) Estimate of the probable useful life of the individual hotel business.

(3) The struggle for business after the first wave of popularity has died out.

I do not know how many hotels are operated by the owners of the realty as well as the equipment, nor do I know how many are operated under a lease, but I think it is fair to assume that the latter will be larger in number than the former. The hotel under lease has a depreciation problem differing from that of the hotel owned outright, because the term of the business operation is limited by the terms of the lease.

A hotel seldom gives up business at one location and moves its equipment to another location as other businesses may do. When a hotel has reached the expected end of its useful life any one of several things may happen. It may be acquired by those who specialize in taking over hotels whose term of useful life has terminated, for the purpose of operating them under entirely different conditions and at much lower rates, after acquiring the furniture and other equipment

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at bargain prices. It may be sold and the building demolished and the site improved by a newer and larger building destined for other uses. Or it may be remodeled as it stands for other uses. In any of the three cases cited above the retiring proprietor disposes of the furniture and other equipment either to the subsequent operator or else perhaps at public sale at auction prices. Where a succeeding proprietor takes the premises over under an existing lease the consideration is apt to be greater than where the sale is made for the sole purpose of discontinuing the hotel business at that location.

If the depreciation provision on this equipment has not kept pace with the decline of the business then there may be, and probably will be, a loss to write off, which most likely will have to be added to an operating loss for the accounting period during which the sale takes place.

### Obsolescence

Now how should this situation be met? Does it come within the definition of that kind of obsolescence which is not permissible of deduction from profits under the income tax laws? Or does it come under that kind of obsolescence which is deductible? Or not under either? There is no uncertainty as to the course which the owner thereof may take and should take from an accounting standpoint. He should begin to provide for the estimated loss to be sustained, through the closing of the business, sufficiently in advance of the occurrence to recover out of profits the amount of that loss. Should any salvage value be found to exist at the time of the sale it will be clear profit, subject to the expenses incidental to its disposal.

In reality what occurs is not usually an obsolescence of the equipment, but rather a realization of the inadequacy of the building or site, or both; or the obsolescence may be due to other causes which in a rapidly growing and ever changing city like New York affect locations and the businesses possible at such locations. Whatever technical name may be given to it, there is none the less a loss which has to be recognized and met by the business. It is the type of loss which those operating the business should have been able to foresee in sufficient time to provide for it, and to take such provision out of profits, as set forth in the foregoing discussion, and seemingly this loss would not be deductible in tax returns under the regulations until the exact amount of the total loss has been ascertained through the disposal of the property.

It appears to me that special investigation should be made by the hotel industry into this phase of the hotel business and the results might then be submitted to the Bureau of Internal Revenue for its consideration.

The proposition to be advanced to the Bureau when the findings are submitted would be along the general lines indicated hereunder:

(1) Shall a hotel at the beginning of its existence have the right to state in advance the period estimated as being its possible useful life, and provide for the recovery of its capital investment over the period of that estimated useful life? The estimate of possible useful life to be revised when and if its operating experience, or other valid circumstances, indicate an error in the original estimate of useful life.

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(2) If so, in what manner shall depreciation be taken in tax returns, in order to spread the loss ratably over the estimated useful life of the property?

Let us look at another phase of the situation, presented by those who believe that the capital investment in movable equipment should be recovered out of the profits in a briefer period during the first years of the existence of the hotel, for the reason that the hotel has then passed through its most profitable period, and thereafter it will undergo a struggle to make profits, which struggle will become harder with each succeeding year. Such a proposition from a business standpoint may or may not be considered good procedure; however, there is no doubt that it does accomplish two very important objects. First, it gets right down to the bottom of what constitutes conservative hotel operation conducted for the purpose of creating and maintaining a fair and reasonable profit and paying a fair and reasonable tax on such profits regardless of the tax rates which may apply in the several years of its existence; and, second, it appears to be the method most conducive to safeguarding the capital investment of the stockholder or the individual owner, as the case may be.

### Buildings and Equipment

I have had little to say with reference to the depreciation of hotel buildings and of building mechanical equipment. This is not because I regard depreciation of these assets as unimportant. It is because of three reasons: Firstly, that very many hotels are operated on leasehold by separate proprietors and not by building owners themselves. Secondly, that we can visualize the terms of useful life of the various items of movable equipment much more clearly than we can those of the component elements of a building and its mechanical equipment; and, thirdly, because so many studies of building depreciation are being conducted at this present time by associations of building owners and managers that it seemed to me well to reserve the subject of building depreciation for future consideration.

I am calling to your mind these subjects because I am firmly convinced, from such observation and study as I have been able to make of depreciation in relation to hotel enterprises, that we will not get down to a true knowledge of what constitutes correct accounting and correct tax procedure in respect thereto until we have made the requisite research studies from which intelligent conclusions may be drawn. I can see no reason why either the Bureau of Internal Revenue or the hotel industry should find it necessary to come to any hasty agreement on a matter of this importance, whereas there is every urgent reason for taking appropriate time for sufficiently detailed studies to be made.

## The Work of a Cost Society

By P. H. LIGHTBODY, F.C.W.A.

(This address, given at a meeting in Newcastle, England, refers to the work of the Institute of Cost and Works Accountants of Great Britain, but it is of interest in connection with the Canadian field and the Canadian Society of Cost Accountants. It is reprinted from The Cost Accountant.)

**I**T is my privilege to address you on the aims and activities of the Institute of Cost and Works Accountants. The Institute was formed in 1919, and now has a total membership of 1,500. It has branches in Birmingham, Leeds, Liverpool, London, Manchester, North-East Coast (Tyne, Wear and Middlesbrough districts), Sheffield, South Wales and Scotland.

The affairs of the Institute are administered by a Council of 15, each branch electing a member to represent the branch on the Council. Executive Officers are appointed to deal with specific sections of activity. The Institute acts as an Examining Body, and holds examinations twice annually at which students for the preliminary, intermediate and final examinations present themselves.

### Chief Aims of Cost Accounting

Cost Accounting is a tool rather than a weapon. Its chief aims are—(1) To reduce cost. (2) To prepare sales estimates and compare with selling prices. Selling prices are controlled by supply and demand.

It is desired to make clear the difference between a qualified Cost Accountant and a cost clerk; the relative positions of the Cost Accountant and the cost clerk may be likened to a trained engineer and a mechanic, and just as a mechanic is very often misnamed an engineer, so a cost clerk is misnamed a Cost Accountant. There is a very wide gap in the training of these two groups.

Prior to the Great War (1914-1918), the industrial or Cost Accountant ploughed a lonely furrow, and was met with only in organizations where the most modern conditions applied. Then came the Great War—an unprecedented demand for output and a keen desire to explore each and every avenue leading to increased production. The Cost Accountant—a sort of "eye witness" of production—came into the limelight, and production benefited, costs were reduced—which is practically the same thing as stating that production increased. This country was confronted with the problem of increased output with a reduction of skilled workers and dilution of labor. The Cost Accountant was able to show where new methods improved the overall efficiency, and where the bottle-necks were. He was able to point out to the management where excessive expenditure occurred, and if not able to suggest a remedy, did constantly force home to the management the weak points. Unit relations were es-

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tablished, and measures of efficiency created; vital statistics and trend graphs were available, and, as many of you know, efficiency at the close of hostilities was in many cases very high. The Cost Accountant's goal is the reduction of costs.

### Position at End of War

At the close of hostilities—namely, in 1919—a few pioneer spirits put forward the idea for an Institute of Industrial Accountants. These men were keenly interested in what one might term “workshop economies.” They were full of an abiding fervour for their project, and desired, if nothing more at that stage, an association of men keenly interested in Cost Accounting and Factory Organization, so that opportunity for free discussion and an interchange of ideas might be made under proper auspices. To this idea is attributed the present Institute of Cost and Works Accountants, who, from a very small beginning 10 years ago, now number 1,500—associated with nearly every industry.

May I repeat what I have already stated, that a Cost Accountant's aim is to reduce cost, and that he is not desirous of reducing wages. WAR ON WASTE, a better day's work, planning ahead, and the conservation of capital invested are ends he has in view.

There is a necessity for Cost Accountants to pioneer. They must be prepared to sell their services to industry rather than expect their services to be bought. Industry will be anxious to buy later. Sales propaganda is essential.

What is expected from a Cost Accountant?

A Cost Accountant has been referred to as the right hand of Management.

The compilation of figures, etc., is not an end in itself, but just the raw material for Cost Accounting studies.

You do not build an intricate machine without drawings, and you cannot build a cost accounting scheme without a carefully thought out plan. It is here that the Cost Accountant is needed. When we locate a disease, and are satisfied that our diagnosis is correct, we can make a definite search for the remedy. A Cost Accountant's real work begins where the cost clerk (the clerical man) leaves off. He is able to produce a daily, weekly, monthly and annual trading account as a matter of routine; profits or losses in themselves are not measures of efficiency, although a handsome profit can cover many sins.

### A Simple Example

May I take a simple example. Assume that I have a machine, or a battery of machines, producing a given unit, and assume that I know the cost of producing those units and the selling price obtained for them. I can obtain the profit or loss on that line of manufacture without anything more than a simple clerical operation. But if I am a Cost Accountant, I am not satisfied to remain an historian—I desire to examine each and every function—to trace the whole activity from A to Z; to examine the source of my raw material supply; to analyze my purchase price into raw material at the source, plus transport charges (it may be cheaper to undertake the transport myself); interest on the investment from the time I re-

## THE WORK OF A COST SOCIETY

ceived the material up to the time I received payment for the sale; to calculate my investment period; to charge my stores manager with depreciation on all materials over his investment period; to prepare each fiscal period a live statement of my overstock and understock; to "cost" the internal transport work; to take my figures to the works, and look at them in full view of the operations performed; to visualize opportunities for the use of mechanical aids so that, wherever practicable, the use of mechanical means may be substituted for manual effort; to trace back the reason for idle machine hours; to keep a check on the planning department, tabulate resetting costs on machines, due to changeover before a job was completed; and generally to apply the microscope to industrial functions.

It is necessary to split my charges under at least two main headings—(1) Those charges which should be proportional to work done. (2) Those charges which are fixed or have relation to periods.

I must know what saving in overhead expenses will be expected by an increased output, and what losses will be expected from a reduction in output.

I should expect to discuss my findings and views with the Works Manager and the Sales Manager before the Board expressed their views.

My avowed purpose to-day is to refer to the aims and activities of the Institute of Cost and Works Accountants, but I cannot miss this opportunity to refer to feelings that constantly recur. We all desire to live comfortably! We need leisure to formulate thoughts for the benefit of all who are engaged in industry. We do not want competition to kill altruism. I am not in any doubt as to the ultimate value of the Cost Accountant. Competition is becoming keener—and rightly so. No one nation can look upon itself as the Lord's anointed—free from competition. The United States of America have in certain directions done a good deal to make for competition. If competition lowers the ultimate price of commodities, and we can adjust ourselves to it, we surely all must benefit. I have recently made an extensive tour in the U.S.A. and Canada, studying business conditions. The Americans have planned ahead for the next few years an intensive export trade to Europe. Their trend graphs are very illuminative, and we will need to take advantage of every means in the industrial field. Incidentally, I may mention that the National Association of Cost Accountants of America have a membership of nearly 5,000.

Our monetary policy is open to objection. Ample credit (properly controlled) is of vital importance to us. This country suffers from age and conservatism. The days are long past when we can carry on without readjusting our views.

### The Need for Action

We must not stare at the horizon and miss that which is near the end of our nose. This wonderful gold standard that many refer to with bated breath is in its present form an anachronism for us. If I have a leather and a bootmaking machine, and you have cloth and a sewing machine, cannot I make boots, and you clothes, because

## COST AND MANAGEMENT

the gold diggings are idle— or gold is stored in New York instead of London? I am not a banker, and, presumably, have no right even to consider the gold standard or the credit standard, but I am not in doubt as to where this fetish is leading us. The gold controllers use industry for their own ends! I can visualize a condition in the future where it may be expedient to have an economic ring round the British Empire to compel others to see that high tariffs even when termed revenue collecting sources as opposed to what they really are—obstacles on the path of international trade, and a desire to usurp the free play of economic laws. Life is a short span—apart from whence we came and where we go spiritually, it seems reasonable to make life here fuller and free from want. In the midst of plenty or potential plenty many suffer mentally and physically for the productions of industry. Whatever be your views, politically or otherwise, we surely must agree that a lower ultimate price means a wider field, and a wider field spells prosperity for us all—assuming other conditions equal.

When we look upon credit in the same way as raw material we may speedily change our present views.

A friend of mine recently discussed a certain project with Signor Mussolini, and stated that it was impossible.

On leaving, my friend asked Mussolini to sign his autograph book, and was rather disturbed when he read:—

"History is a Record of the Impossible."

MUSSOLINI.

### A Factor in Progress

Gentlemen, let us bend our wills to the attainment of the possible "reduction in cost"—let us examine every phase of our industrial structures, weigh every operation and function performed, make no excuse for wasted effort, and then there will emerge a rejuvenated industrial Britain. The Cost Accountant stands at the right hand of management—USE HIM! He can be likened in the industrial field to the medical specialist in the medical field. A correct diagnosis is his first aim. The Cost Accountant not only seeks to cure, but seeks to foresee and prevent industrial disease.

The real success of this organization and the work which we are doing lies in the hands of our members. We must determine whether our work succeeds or falls short. This last year has marked the peak of growth of this Institute, both from a point of view of the technical work done and the interest that the heads of industrial concerns have taken in our activities. One of the principles of this Institute is that of co-operative service to members, and our meetings and contacts are regarded as occasions for giving and getting information; this service can be defined as the giving of ourselves, so that others may come to know what we have acquired in the way of industrial knowledge. We hope that the Cost Accountant has passed the experimental stage, and that his work is no longer on trial.

A movement may progress for a few years under artificial stimulant, or through the inspiration of emotional appeal, but no movement or association can show a record of ten years' continual progress unless it is based upon a substantial foundation of real worth.

## THE FIVE-DAY WEEK IN THE UNITED STATES

### THE FIVE-DAY WEEK IN THE UNITED STATES

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**A**T least 270 manufacturing establishments in the United States, employing in the aggregate approximately 218,000 persons, are operating on a regular five-day week schedule, according to a report just published by the National Industrial Conference Board, New York. This number includes the Ford plants, but excludes the workers in the building trades working on a five-day schedule.

The total number of wage-earners employed on a permanent five-day schedule is not known, but is estimated by the Conference Board to have reached 400,000 persons at the beginning of the current year. Large groups of building trade workers, however, were granted a five-day week later during the year.

While the five-day week thus has been adopted perhaps more widely than is generally realized, still it applies to only a relatively small portion of industrial workers, those in the manufacturing industries found to be working under that schedule amounting to only 2.6 per cent of the industrial workers of the country, and 80 per cent, or most of them, were employed by the Ford Motor Company.

Companies operating under the five-day week arrangement were found to represent a number of industries and types of processing, but belonged generally to the non-continuous, as contrasted with the continuous process type. Where the process has no fixed time element, the five-day schedule appears to be susceptible of wide application, but in the continuous process industries the five-day arrangement presents the alternative of either the loss of one or two days' production each week or of employing sufficient additional workers to provide a revolving shift, the board points out.

The five-day week, it is emphasized, as now in operation, is not always a 40-hour week, but frequently constitutes merely a re-arrangement of hours with only a partial loss of the number of hours worked under the six-day schedule. It is thus, at the present stage of its development, in part a question of re-arrangement of working hours, the time lost on Saturday being re-apportioned over the other five working days of the week, lengthening each day somewhat, and in part a question of reduction of the total work period. But, "in effect, the five-day week is only the current form of the movement toward progressively shorter working hours for labor," the board finds. "Since this tendency is coupled generally, or in principle, with the assumption that wages are to be maintained or increased (in spite of the shorter work period) the five-day week is, at bottom, also a part of the general movement for higher wages."

#### Plan is Practicable

The question of shorter working hours in this form thus has become one of social economy and industrial technology. The evidence uncovered by the Conference Board in its analysis of the experience with the five-day week in the 270 reporting manufacturing establishments does not allow the conclusion that any or all industrial plants

## COST AND MANAGEMENT

could advantageously adopt the five-day plan. The facts collected by the Board do, however, remove the five-day week from the status of a radical and impractical administrative experiment and places it among the plans which have demonstrated both practicability and usefulness under certain given circumstances, allowing employers to approach the problem with some factual evidence as a guide to the practicability in their own specific instance.

The earliest instance of five-day week operation discovered by the Conference Board in its investigation was that in a New England spinning mill, which started business in 1908 on a five-day schedule, the reason being principally a religious one, since most of the workers were of Jewish faith and wished to observe the Sabbath holiday. The five-day schedule in this case was instituted without loss of working hours, the five remaining working days being proportionately lengthened. It was more than ten years, however, before the movement began to spread to any appreciable extent, and at the end of 1928 only about 0.14 per cent. of the number of all manufacturing establishments, employing only 2.6 per cent. of all industrial wage-earners, as far as could be ascertained, were operating on a regular five-day week schedule, but also under a great variety of plans of number of working hours per day and of wage payments.

### In Small Industries

In point of number of establishments, the five-day week in the manufacturing field has made greatest headway in the garment industries, the number of workers employed by these plants operating under a five-day schedule, however, constituting only a small portion or the total number of workers in manufacturing working five days a week. Another industry in which the five-day arrangement has made considerable progress is in printing and lithographing, where special conditions make it more easily applicable. From the standpoint of size of establishment, the five-day week has spread mostly among relatively smaller plants; excluding the Ford Motor Company, the average number of employees of establishments operating on a five-day schedule is 155.

Aside from the broader social considerations which are advanced by some as reasons for adopting the five-day week schedule, the relatively high overhead cost and lower efficiency on Saturday in plants ordinarily operating only half a day at the week-end, in many cases have contributed toward the decision to eliminate Saturday operation altogether, this day being dedicated instead to repair and similar maintenance work.

The effect of a five-day week schedule upon production is inconclusive on basis of the evidence available, principally because whatever change in output occurred under that arrangement generally is due also to a number of other factors. Of the reporting companies, 6.4 per cent. stated that the output under the five-day schedule had been "substantially less"; 25.4 per cent. declared that it had been "less in proportion." No change in output was reported by 49 per cent. while 19.2 per cent. declared that output had increased.

## QUEBEC SOCIETY NOW FIFTY YEARS OLD

### QUEBEC SOCIETY NOW FIFTY YEARS OLD

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**T**HE Society of Chartered Accountants of the Province of Quebec is receiving the congratulations of accounting bodies and of accountants, having attained the age of fifty years. The Canadian Society of Cost Accountants wishes to join in these expressions of esteem. Their success is particularly gratifying to the Montreal Chapter of our Society, in view of the hearty co-operation which they have given us in our activities.

The Quebec Society, celebrating its jubilee on December 5, 1929, was formed some months previous to actual organization, and is the first English speaking society born outside of Scotland, which country is the home of accountancy.

A dinner was held in the Windsor Hotel on December 5, the feature of which was the presentation of a fine engraved loving cup to Alexander F. Riddell, senior member of the Society, who was its first secretary when it was incorporated in 1879. Some who were present at the head table with the president, A. A. Gowan, were the Provincial Treasurer, Hon. A. R. McMaster; Their Worships Mayor Houde; Mayor Hogg and Mayor Beaubien; Harvey E. Crowell, president of the Dominion Association of Chartered Accountants; F. H. Hurdman, president of the American Institute of Accountants and representative of the New York State Society of Certified Public Accountants; S. G. H. Fitch, vice-president of the A.I.A.; H. Percival Edwards, president of the Ontario Institute of Chartered Accountants; A. F. C. Ross, honorary secretary of the Canadian committee of the Incorporation of Accountants and Auditors; C. E. Gravel, president of the Chambre de Commerce, Montreal; George C. McDonald, president of the Montreal Board of Trade; Georges Gonthier, Auditor-General for Canada; M. W. Wilson, general manager of the Royal Bank of Canada; Col. R. R. Thompson, president of the Canadian Society of Cost Accountants; N. C. Polson, J. A. Turcotte, A. E. Walford, L. P. Lortie, D. R. Patton and Robert Wilson, secretary.

The history of the Quebec Society was briefly sketched by Mr. Riddell, who explained that he had been the youngest of the charter members on its incorporation, December 5, 1879. The profession in those days, he said, enjoyed the confidence of the public just as it does now. The business was chiefly that of liquidation of insolvent estates, the management of estates, and auditing. The speaker then read a few notes taken from the minutes of the society in its earlier days. In 1881, he said, a suggestion was received from Toronto that the Ontario and Quebec societies should affiliate with the English society, but this was declined. In 1886 the first advertisement appeared in The Gazette. Of the Ontario society charter members, E. R. C. Clarkson is the sole survivor. Mr. Riddell closed with the remark that he hoped many of the younger members present in the room would live to see the 100th anniversary.

The first speech of the evening was given by Mayor Houde, who wished the society all success. He was followed by Hon. Mr. McMaster who proposed the toast to the society and traced the history of char-

## COST AND MANAGEMENT

tered accountancy. The profession had its real beginning in Scotland, he said, but there was not much activity until the beginning of the 19th century. In 1854 the first society was founded in Edinburgh, and a year later Glasgow followed suit. Aberdeen founded hers in 1867. The profession has always been characterized, he averred, by two qualities—professional competence and character.

Mr. Gowan replied to the toast, and said that the standard is now higher than it ever has been. He also referred to the good work done by the Provincial Government.

The toast to the guest was proposed by one of the oldest members, John Hyde, and responded to by Mayor Joseph Beaubien, Professor R. M. Sugars, of the School of Commerce at McGill University; Dr. Henri Laureys, dean of the School of Higher Commercial Studies at the University of Montreal, and Warwick F. Chipman, who spoke for the legal profession.

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## DOMINION INCOME TAX RULING

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**I**NSPECTORS of Income Tax have been advised by official memorandum that the department has had under consideration the question of allowance of depletion to mining companies operating base metal mines, as a result of which Inspectors are notified that, commencing with the taxation year 1929, the depletion rate will be increased from 25 per cent to 33 1-3 per cent. on such companies' mining profits. This ruling will include companies mining nickel, copper, lead, zinc, tin and asbestos.

This rate of 33 1-3 per cent. is to cover also any precious metals which may be recovered during the course of base mining operations.

The shareholders of such companies, commencing with the year 1929, will also be allowed 33 1-3 per cent. in respect of the dividends from such companies as a return of capital.

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## DEATH OF FORMER TORONTO MEMBER

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**R**ICHARD S. SMITH, for some years an active member of Toronto Chapter, of which he was secretary for the year 1924-25 and treasurer for 1925-26, died in Toronto on December 4, after an illness of several weeks. The late Mr. Smith was born in London, Eng., and came to Canada 40 years ago, spending 15 years in Montreal, then moving to Toronto. Mr. Smith was for many years associated with the Baldwin Steel Corporation, taking charge during the period of the selling of the works when Sir Hugh Poynton had gone to Australia. During the war he acted as Secretary-Treasurer of the British Forging Company and after the sale of Baldwin's he was with Stobie, Forlong & Company, stock brokers.

## COST LITERATURE

# COST LITERATURE

### RECEIVED IN DECEMBER

**M**ANUFACTURING Expense Analysis, Classification, and Distribution. William A. Ullrich, C.P.A., Dayton, Ohio. National Association of Cost Accountants' bulletin, December 1.

Perpetual Inventory Control in a Trimming Stock Room. L. S. Bartlett, Hickey-Freeman Co., Rochester. National Association of Cost Accountants' bulletin, December 1.

The Organization and Functioning of an Office. D. S. Smith, Perfection Stove Company, Cleveland. National Association of Cost Accountants' bulletin, December 15.

The President and the Cost Accountant. H. D. Bennett, president, Toledo Scale Company, Toledo. National Association of Cost Accountants' bulletin, December 15.

The Management's Responsibility in Modern Factory Administration. E. T. Spidy, Superintendent of Government Railway Workshops, New Zealand. The Accountants' Journal (New Zealand), November 20.

Valuation of Normal Stocks at Fixed Prices. Maurice E. Peloubet, C.P.A. The Accountant, November 23.

The Control of Wages in Costs. W. R. Wintle, F.C.W.A. The Cost Accountant, November.

Standard Costs. M. V. Anderson, F.C.A.A., A.C.A.I.C.A., Offner, Hadley & Co. The Australasian Accountant and Secretary, October.

### NEW MEMBERS

The following are new members of the Society:

#### Montreal Chapter

Dufresne, P. E., Wilson & Fessenden, Montreal.  
Glass, H. F., Distillers Corporation, Ltd., Montreal.  
Klein, H. S., Julius Kayser & Co., Ltd., Sherbrooke.

#### Toronto Chapter

Howard, A. G., Lincoln Meter Co., Ltd., Toronto.  
Kingsburgh, G., Clarkson, Gordon, Dilworth, Guilfoyle & Nash,  
Toronto.

#### Hamilton Chapter

McMillan, Wm., C.A., Riddell, Stead, Graham & Hutcheson, Hamilton.

#### Winnipeg Chapter

Ligertwood, J. C. M., C.A., Peat, Marwick, Mitchell & Co., Winnipeg.

## CHAPTER NOTES

### MONTREAL

D. R. Patton, C.A., Secretary

Whether it was on account of the change in the night of meeting, or whether it might have been that the heads of the house had already entered on the Christmas probationary period and had cancelled all outside engagements, we do not know—but at any rate a large number of members missed a very fine address on December 7th, when Mr. Rene Morin, N.P., M.P., addressed the Montreal Chapter on "Some Considerations on the Cost of Money."

Mr. Morin is a man eminently qualified to carry on a discussion on "MONEY," with its many problems, and a man who has a happy faculty of presenting such a subject in a bright and interesting manner. According to his analysis, economics and cost accountancy, usually considered as distinct and independent studies, may still have interests in common, and may each do something in its own way, towards the solution of the same problem. He pointed out how that in this particular economic field, the cost accountant may make his contribution towards improving the status of money as a commodity, by "Disclosing the productive and non-productive branches of activities and by directing human energies towards the less productive."

Beginning with the days before man had introduced any medium of exchange, the times when he was forced to trade and deliver his goods direct; when he might exchange a couple of his cows, or perhaps his favorite wife for his neighbor's best horse—the speaker traced the development of money to modern times. He outlined the functions performed by it in the present age as an instrument of economic intercourse. Money is a commodity, and as such is subject to the economic laws of supply and demand, and its cost varies with the influence of the factors affecting these laws. Increasing productivity of fixed Capital increases the demand for money, and the cost to the user increases according to the corresponding rise in the interest rates.

Money rates may thus serve as regulators of supply and demand, and are so used by the Banking Houses and by the American Federal Reserve Board; these bodies are not able however to exercise complete control, on account of the large amounts of personal and corporate funds which may be available from outside sources. This condition was demonstrated quite effectively during the recent market break.

The usual discussion followed the address, and Mr. Morin cleared up several long standing problems of the members.

## CHAPTER NOTES

### TORONTO

H. J. McQuillan, Secretary.

It was a pleasure to see so many new faces at the Toronto Chapter on December the 11th. Mr. J. Sinclair of Rogers-Majestic Corporation, and Mr. T. B. Dooley of The Canadian I.T.S. Co. remarked that they enjoyed the meeting, which was very decent of them. Our chairman, D. C. Patton, was under the weather, our vice-chairman, R. Oaten, was unfortunately out of town, and H. J. McQuillan substituted.

C. H. Black and his associates, H. E. Guilfoyle, C.A., W. R. Hodgson, J. H. Mitchell, J. A. Parkhill, and J. R. Pidduck gave very interesting papers bearing on problems of inventory-taking. Mr. Hodgson made some frank, sweeping statements and invited dissension. Mr. Guilfoyle met Mr. Hodgson's demands and gave a splendid address on "What the Auditor Expects of the Inventory, and What is Expected of the Auditor Concerning the Inventory." Mr. Hodgson mentioned taxation. But as we all realize that taxation is the last thing to be considered in compiling any statement, this question was not further pursued. Mr. Pidduck touched on obsolete stock, but the meeting broke up at 10 p.m. and we had to round out some of the topics in the neighbouring estaminets.

"You know," said one polished and perfunctory auditor of both deep and wide experience, "I have just emerged from a rather ticklish audit of 'Muffler's Limited' on Straight Street. Previously their fiscal year has terminated co-relatively with the operating and producing year on June 24, St. Patrick's Day. But, having experienced an unusual summer, we decided to wind up November 30, and give 1930 the benefit of 1929 Christmas trade. Of course, previous to the official audit, I sat in at the annual pre-directorate gathering to advise on inventory procedure.

"The bookkeeper said, 'When did we pay the last dividend, Mr. Yes-Yes?' '1909,' was the answer, '3% on the common, and 28% on prepared.' 'Bondholders' interest?' asked the janitor. '3 years in advance, sir,' responded the acting vice. Here the sales engineer and promotion agent both explained salesmen's reports, showing that in the past 3½ years, stockholders' purchases of obsolescent and depleted furnishings had fallen off in inverse ratio. Till now their visits to the established branches could be counted on the finger tips. Their lost custom, it was explained, was only compensated by the bondholders' good-will. We all felt that a dividend should be declared,—and how! Here I was asked for professional advice.

"Being my first business experience with Mufflers or any other firm, it was felt my thought would be fresh and unsullied. 'With your permission, kind Sirs,' I abbreviated, 'I shall declare a 12% quarterly dividing on the common and 6% on the prepared stock.' 'Carried,' shouted the foreman. We then studied the inventories of the enterprise by departments, provinces, grades, and sex. In the female department the chief items were 3 hundred weight black woolen half and full hose, half for garter use, and half for use without suspenders, 4 bales of flannel undershirts, 14 dozen gross fleece lined vests. We looked over the men's inventory while the president went home for the invoices and cost sheets of the woolen era. We found on his

## COST AND MANAGEMENT

return that the invoice price being slightly higher than the laid down cost, less the interest on investment, that we would price on the latter basis, disregarding trade discount.

"The switch-board girl had the men's department well in hand, reporting, 'In previous years, October and November straws were burned if any unsold balance could be found, but our stock of other lines is really negligible, anticipating the Christmas rush. As previously, under gross mismanagement, the sales staff has been over-worked in the Yuletide season.' However, she had been conducting a research, aided by the chief accountant. And in a package of invoices labelled ladies' bustles, quotations were found on men's stocks, leather suspenders, toe socks, 4 barrels of gaiters done up in cheese boxes, and 2½ miles beaver muffs. The last item had us stalled. So, while some one was looking it up, I made out a preliminary 'Prophecy and Loss.' We could pay ten per cent. comfortably without impairing our surplus, by changing our methods of depreciation. I recommended the Substitute for Reducing Balance method on polished fixtures, the Annuity method of office machinery, appraised method of wooden shelving, and increasing balance method on donated advertising. The cash position came up, and I agreed to take notes for my services as follows,— 2% per month for 8 months, 3½ % for 4 months, and the balance 60 days sight, my work subject to approval of staff auditors. If the report on muffs proved satisfactory, it was decided to follow my original suggestions.

"The office manager, taking a sip of Listerine, reported that ear muffs had been observed in the early part of 1925. An old bondholder questioned this, on the grounds that they had been a part of ladies' and children's apparel, in the latter case often being accompanied by clouds and gaiters. The chairman of the board, a grizzled veteran of the furnishing trade recollected all details of the purchase, that they had been bought for the agent at Constantinople, in anticipation of the Turkish male adopting European dress. Here, a common stockholder who had edged into the meeting with a message to the stenographer, said, 'I have just received a report from the British agent to the effect that this article, the Beaver Muff, is attracting unusual interest in London and Paris.' It was immediately decided to price these articles on the basis of Beaver in New York in 1925. A few days later I met this common shareholder in Mr. McKague's office. 'Say, Mr. Biggs, is it in the large or small establishments in London that the muffs are in demand?' 'Oh! the largest of course,' he said, 'Madame Tussaud's and the British Museum.'"

## CENTRAL ONTARIO

C. J. Heimrich, Secretary

The meeting of Central Ontario Chapter on December 12th, held at the offices of Babcock-Wilcox and Goldie & McCulloch Co., Ltd., at Galt, was addressed by Stuart H. Sorley, C.A., of Thorne, Mulholland, Howson & McPherson, Toronto. Mr. Sorley gave some practical suggestions regarding cost work for business concerns of small or medium size. He proved a capable speaker and his remarks were greatly appreciated.

## WINNIPEG CHAPTER PROGRAMME

### WINNIPEG CHAPTER PROGRAMME

- | 1929      | 1929-30   |
|-----------|---|
| Aug. 9—   | University Education for Commerce. Professor R. R. Thompson, McGill University.   |
| Sept. 17— | Standard Costs. D. M. Farish, Northern Electric Co., Ltd.   |
| Oct. 21—  | Gas and Its Products. Hugh McNair, Winnipeg Electric Company.   |
| Nov. 25—  | Packing House Costs. R. J. Kirk, Swift Canadian Company, Limited.   |
| Dec. 16—  | Punched Hole Accounting. S. R. Bates, International Business Machines, Ltd.<br>Distribution of Administrative and Selling Costs. General Discussion opened by W. J. Logan, Manitoba Bridge & Iron Works, Ltd., and Fred C. Gilbert & Laird. |
| <br>1930  |   |
| Jan. 20—  | Costs in the Paint Industry. Arnold Smith, International Laboratories, Ltd.   |
| Feb. 17—  | Dairy Costs. A. D. Evans, Crescent Creamery, Ltd.   |
| Mar. 17—  | Annual Meeting and Dinner. Some Aspects of Departmental Store Accounting. G. F. Klein, Hudson's Bay Company, Ltd.   |
| Apr. 21—  | The Tie-in of Factory Records with the Cost Accounts. General Discussion led by James B. Sutherland, George A. Touche & Company.  |
| May 19—   | Flour Milling Costs. W. J. Mundell, Ogilvie Flour Mills, Ltd., and J. S. Anderson, Western Canada Flour Mills Ltd.  |

### THE TREND OF PRODUCTION COSTS

**A**VERAGE commodity prices declined slightly in November. The following are Dominion Bureau of Statistics index number of wholesale prices, based on a total of 502 commodities, with the 1926 average taken as 100:

	Nov. 1928	Oct. 1929	Nov. 1929
Foods, beverages and tobacco .....	99.1	103.8	102.7
Other consumers' goods .....	92.4	90.1	90.3
Total consumers' goods .....	95.1	95.6	95.3
Producers' equipment .....	92.8	94.4	94.6
Producers' materials .....	93.5	97.6	95.5
Total producers' goods .....	93.4	97.3	95.3

Commodities showing important advances in price in November were: foreign fresh fruits; dried fruits; wood pulp. Those which showed important reductions were: domestic fresh fruits; grains; bakery products; hides and skins; eggs; raw cotton; raw silk; raw wool; wool cloth; tin; zinc; solder; fertilizers.

In November there were eight strikes and lockouts in Canada, compared with eleven in October. Six of these disputes had been carried over from October into November, and two new ones commenced, while two terminated, leaving six still in effect at the close of November. These six were as follows: moulders, Montreal; pulp-wood camp workers, northern Ontario; coppersmiths, Toronto; silver-smiths, Toronto; stage hands, Ottawa; and musicians, Ottawa.

## COST AND MANAGEMENT

Due to the severe liquidation in the stock markets, money conditions have eased greatly, and rates are much lower in the United States. While rates show little if any change in Canada, the banks are in a better position to handle new loans, and conditions are more favorable to the sale of new securities.

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### GIVE YOUR OFFICE AN INCREASE!

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By Archie G. Wynne-Field

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(From "Canadian Office".)

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**Y**EARS of diligent studious service on the part of your staff you recognize by handing our promotions, bonuses and increases. That is as it should be! If your accountant keeps the bookkeeping department running smoothly he deserves recognition. If your salesman promotes your volume of business he is entitled to more money.

And if your employee is a conscientious chap he will reward your munificence with increased efforts. In other words you invest a little more salary expecting to reap even greater interest on his part. But what about your office when you are distributing the rewards?

Apart from your home you spend more time in your office than in any other apartment. It has been the birth place of your progress and prosperity. There you have seated yourself for months and years, planning, devising, scheming. It has become an old friend. When you retire you will miss it more than you realize. Have you ever considered giving it an increase of salary?

If you provide it with fresh equipment it will bring you not only more comfort and increased business, but it will make the work of your employees speedier and more accurate. In the long run new fixtures cost little. Salvage companies are springing up in every city. At these places you can profitably turn in your old desks and files. In ratio to value received it will prove cheaper to you than the annual salary increases.

Artistic, well-equipped offices no longer belong only to the get-rich-quick class. Pictures, carpets and snappy equipment mark your office as respectably prosperous and progressive.

If you feel that you are not giving your office a square deal—and you will agree it is a good investment to do so—why not drop into a salvage company and get prices on your worn desks? They will pay you a good share of what you will pay for new ones. Or if you can't afford new ones why not look over their almost new stock? Some executives turn in their desks every few years. Perhaps you might get an almost new desk in return for your old one and a few well-spent dollars. But whether you can afford brand new furniture or only better second-hand equipment remember you are judged by your surroundings.

Your office expresses your personality just as do your clothes or car. And you wouldn't want to give the impression that you were sloppy-minded! You don't let your car go on year after year without turning it in for a better model. Surely your car is incidental to your office. Then why show it favors? Give your office an increase!

